

State of Montana
Office of the Legislative Auditor

REPORT TO THE LEGISLATURE

DEPARTMENT OF INSTITUTIONS
MONTANA STATE PRISON

**Financial-Compliance Audit for the
Two Fiscal Years Ended June 30, 1985**

This report contains 7 recommendations for improvement of the prison's operations. The major items addressed in this report include fixed assets, recording transactions in accordance with state accounting policy and compliance with state laws and regulations.

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Financial-compliance audits are conducted by the Office of the Legislative Auditor to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations which could have a significant impact on the financial schedules. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States General Accounting Office.

Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

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STATE OF MONTANA

Report to the Legislature

DEPARTMENT OF INSTITUTIONS

MONTANA STATE PRISON

Financial-Compliance Audit for the
Two Fiscal Years Ended June 30, 1985

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STATE OF MONTANA

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SCOTT A. SEACAT
LEGISLATIVE AUDITOR

January 1986

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance report on the Department of Institutions, Montana State Prison's, financial activity for fiscal years 1983-84 and 1984-85. The prison's written response to audit recommendations is included in the back of the audit report.

We thank the department director, the warden, and their respective staffs for their cooperation and assistance throughout the audit.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Scott A. Seacat", written over a horizontal line.

Scott A. Seacat
Legislative Auditor

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APPOINTIVE AND ADMINISTRATIVE OFFICIALS

DEPARTMENT OF INSTITUTIONS

| | |
|----------------|---------------------------------------|
| Carroll South | Director |
| Curt Chisholm | Deputy Director |
| Daniel Russell | Administrator Corrections Division |

MONTANA STATE PRISON

| | |
|--------------|---------------------------------------|
| Henry Risley | Warden |
| Bill Wells | Associate Warden of Administration |

SUMMARY OF RECOMMENDATIONS

This listing serves as a means of summarizing the recommendations contained in the report and the audited agency's reply.

| | <u>Page</u> |
|---|-------------|
| <u>Recommendation #1</u> | |
| The prison: | |
| A. Continue to improve the accounting control for fixed assets. | 4 |
| Agency Response: Concur. See page 35. | |
| B. Comply with property management standards issued by the federal government for property acquired with federal funds. | 4 |
| Agency Response: Concur. See page 35. | |
| <u>Recommendation #2</u> | |
| The Department of Institutions establish procedures to ensure entries made for other entities do not misstate financial records. | 5 |
| Agency Response: Concur. See page 35. | |
| <u>Recommendation #3</u> | |
| The Department of Institutions work with the Department of Administration, Accounting Division, to ensure entries made for institutions are proper. | 6 |
| Agency Response: Concur. See page 35. | |
| <u>Recommendation #4</u> | |
| The prison record inventory adjustments in accordance with state policy. | 7 |
| Agency Response: Concur. See page 36. | |

SUMMARY OF RECOMMENDATIONS

| | <u>Page</u> |
|--|-------------|
| <u>Recommendation #5</u> | |
| The Department of Institutions continue to work with the Department of Administration to determine a proper method for recording gains and losses in ranch operations. | 9 |
| Agency Response: Concur. See page 36. | |
| <u>Recommendation #6</u> | |
| The Prison: | |
| A. Establish procedures to ensure compliance with deposit requirements. | 10 |
| Agency Response: Concur. See page 36. | |
| B. Further reduce the Contingent Revolving Fund balance to the amount necessary to meet immediate needs. | 11 |
| Agency Response: Concur. See page 36. | |
| <u>Recommendation #7</u> | |
| The Prison: | |
| A. Comply with section 17-2-108, MCA; or | 11 |
| Agency Response: Do not concur. See page 37. | |
| B. Seek legislative approval to retain a balance in the industries training program for operating moneys. | 11 |
| Agency Response: Do not concur. See page 37. | |

INTRODUCTION

We performed a financial-compliance audit of the Montana State Prison (MSP) for fiscal years 1983-84 and 1984-85. The objectives of the audit were to: 1) determine if the agency's financial schedules present fairly in accordance with state accounting policy the results of operations for the two fiscal years ended June 30, 1985; 2) determine if the agency complied with applicable laws and regulations; and 3) make recommendations for improvements in the management and internal controls of the agency.

This report contains seven recommendations to the agency. These recommendations address areas where the agency can improve management, financial reporting, and compliance with laws and regulations. Other areas of concern deemed not to have a significant effect on the successful operations of the agency are not specifically included in the report, but have been discussed with management.

In accordance with section 5-13-307, MCA, we analyzed the costs of implementing the recommendations made in this report. Each report section discloses the cost, if significant, of implementing the recommendation.

BACKGROUND

The Montana State Prison (MSP) at Deer Lodge was initially established as a federal prison in 1873. When Montana was granted statehood in 1889, the prison facilities were transferred to the state. In 1953, facilities were substantially increased by the purchase of several ranches with total land area of approximately 33,000 acres.

The 1973 Legislature approved construction of a new prison. The new facility is located on the prison ranch, west of Deer Lodge. The old facilities were leased to the city of Deer Lodge. The 1983 Legislature provided \$14,416,400 for major expansion of the new prison. The prison also received \$300,000 to purchase and remodel the infirmary and \$700,000 for an industries building. The project is being completed in four phases. When complete,

the designed capacity of the prison will be 744 inmates. At December 1, 1985, the project had reached the following stages.

| <u>Phase</u> | <u>Description</u> | <u>Percentage of Completion</u> | <u>Estimated Completion Date</u> |
|--------------|---|---|--|
| I | Low Security Gymnasium | 100% | Completed |
| II | Kitchen Remodel & Addition | 100% | Completed |
| III | New Administration Building High and Maximum Security Buildings | 90% | March 1986* |
| IV | High Security Support Medical Addition, Low Security Support Remodel and Vo-tech Industries Building | 75% | June 1986* |

Source: Project Architect

*On December 30, 1985 an explosion occurred at the prison. The explosion destroyed a guard tower and did an undetermined amount of damage to the new Administration building. The damage to the new Administration building will delay completion of both Phases III and IV. New timetables for completion were not established at the issuance of this report.

The prison records show that the prison population averaged 740 during fiscal year 1983-84 and 776 during fiscal year 1984-85. Prison personnel estimated average population would have been 40-45 more in each year if the prerelease centers in Butte and Great Falls had not opened. The prison had 315 employees on June 30, 1984, and 328 employees on June 30, 1985.

All prison activities are under the warden's supervision. The ranch, industries, and industries training programs are under the director of the Department of Institutions. The department has delegated the responsibility for administering these programs to the prison warden.

FIXED ASSETS

We noted in our last audit that the prison had corrected many of the fixed asset accounting weaknesses noted in prior audits but

could still improve controls. We recommended the prison continue to improve accounting controls over fixed assets.

To aid in implementing our previous recommendation, the prison converted from the Department of Institutions', Supplies Inventory Management System (SIMS), to the Property Accountability Management System (PAMS) maintained by the Department of Administration on the Statewide Budgeting and Accounting System (SBAS). However, during the changeover the individual responsible for taking the inventory and recording the items on PAMS left the employment of the prison. The remaining work was shifted to existing personnel and errors occurred as a result.

Several groups of equipment items that were on SIMS and should have been recorded on PAMS were omitted. These items include:

1. All tag plant equipment over \$200 (\$368,355).
2. All armory equipment over \$200 (\$54,608).
3. Surplus kitchen equipment in storage (estimated at \$100,000).

Our analysis of equipment expenditures compared to property recorded indicates there may be more unrecorded equipment. It was not cost beneficial for us to determine the type of equipment involved or the dollar value.

Prison personnel indicated the tag plant equipment was not recorded due to confusion between the prison and the prison ranch as to who should process the documents. The armory and kitchen equipment were overlooked. We also noted that the \$345,504 Religious Activities Center was not recorded on PAMS. The center was constructed with donated funds and prison personnel did not know the building should be recorded.

During our examination of federal grants we noted the prison had purchased equipment with grant moneys. Some of the property purchased with grant moneys was not included on PAMS as of fiscal year-end 1985 nor was it separately identified as having been purchased with federal funds. Office of Management and

Budget (OMB) Circular A-102, Attachment N, states all property purchased in whole or in part with federal funds or whose cost was charged to a project supported by a federal grant shall maintain records that indicate the source of the property and shall mark the property so it may be identified as having been acquired with federal moneys.

RECOMMENDATION #1

WE RECOMMEND THE PRISON:

- A. CONTINUE TO IMPROVE THE ACCOUNTING CONTROL FOR FIXED ASSETS.
- B. COMPLY WITH PROPERTY MANAGEMENT STANDARDS ISSUED BY THE FEDERAL GOVERNMENT FOR PROPERTY ACQUIRED WITH FEDERAL FUNDS.

STATE ACCOUNTING POLICY

During our audit we noted several instances of transactions not recorded in accordance with state accounting policy. The following sections describe areas of concern. Of the six areas of concern noted, four resulted from incorrect entries input for the prison by the Department of Institutions and/or the Department of Administration, Accounting Division.

Current Year Revenue

The prison houses inmates for the federal government. The federal government contracts with the prison for this service and paid \$37.56 per prisoner per day in fiscal year 1984-85. Prior to the beginning of our audit period, a fund balance of \$14,567 had accumulated in the federal boarder accounting entity. During fiscal year 1983-84 the Department of Institutions processed a document to eliminate fund balance that was subsequently adjusted by the Department of Administration, Accounting Division. The adjustment improperly zeroed the fund balance account by increasing current year revenue in the Special Revenue Fund.

Thus, current year revenues in the Special Revenue Fund in fiscal year 1983-84 were overstated and fund balance was understated by \$14,567. This misstatement resulted in a qualification of the opinion on page 17.

The prison subsequently began utilizing procedures that eliminate the need for adjusting entries. Because these procedures correct the problems noted in fiscal year 1983-84, we make no recommendation.

Deferred Revenue

The prison processed a document at fiscal year-end 1984-85 to accrue revenue earned in June 1985 under the federal boarder contract. The Department of Institutions subsequently submitted documents changing the revenue recorded by the prison to deferred revenue. The deferred revenue classification is for money received during a period that will be earned in a subsequent period. The revenue recorded by the prison had not yet been received but had been earned.

The Department of Institutions entry thus overstated deferred revenue and understated current year revenue by \$5,634 at fiscal year-end 1985.

RECOMMENDATION #2

WE RECOMMEND THE DEPARTMENT OF INSTITUTIONS ESTABLISH PROCEDURES TO ENSURE ENTRIES MADE FOR OTHER ENTITIES DO NOT MISSTATE FINANCIAL RECORDS.

Prior Year Revenue

Several of the state institutions share common accounting entities. This is a management tool utilized by the Department of Institutions (DofI) to assist in keeping track of similar kinds of activities, such as canteens and boarder reimbursements, at the various institutions.

In the normal year-end closing process, performed by Department of Administration, Accounting Division, all cash in these shared entities is accumulated in the combined entity at DoFI.

In fiscal year 1984-85 the Department of Institutions (DoFI) processed documents to restore the cash balances on the accounting records of each institution involved. However, the entry utilized by DoFI resulted in misstatements of Prior Year Revenues and Beginning Fund Balance in the Special Revenue Fund as follows:

| | <u>Canteens Prior Year Revenue Overstated/ Fund Balance Understated</u> | <u>Boarder Reimbursements Prior Year Revenue Overstated/ Fund Balance Understated</u> |
|---------------------------------|---|---|
| Montana State Prison | \$18,349 | \$11,868 |
| Other Institutions: | | |
| Montana Developmental Center | 3,428 | -0- |
| Center for the Aged | 9,706 | -0- |
| Mountain View School | -0- | 53,064 |
| Pine Hills School | -0- | 7,063 |
| Swan River Youth Forest Camp | 13,393 | 15,887 |
| Montana State Hospital | 30,683 | -0- |

| | <u>Canteens Prior Year Revenue Understated/ Fund Balance Overstated</u> | <u>Boarder Reimbursements Prior Year Revenue Understated/ Fund Balance Overstated</u> |
|-------------------------------|---|---|
| Department of Institutions | \$75,559 | \$87,882 |

This misstatement resulted in a qualification to the opinion on page 18.

RECOMMENDATION #3

WE RECOMMEND THE DEPARTMENT OF INSTITUTIONS WORK WITH THE DEPARTMENT OF ADMINISTRATION, ACCOUNTING DIVISION, TO ENSURE ENTRIES MADE FOR INSTITUTIONS ARE PROPER.

Inventory Adjustments

Montana State Prison maintains inventories in its General, Special Revenue, and Internal Service Funds. State policy requires, in Management Memo 2-84-1, that physical inventories be taken as of June 30 each year and inventory balances be adjusted, using specified procedures, to reflect increases and/or decreases in the inventory balance.

We noted that during our audit period the prison was not following the adjustment criteria set forth in Management Memo 2-84-1. This resulted in the following misstatements and a qualification of the opinion on page 16.

| <u>Fund</u> | <u>Account</u> | <u>Fiscal Year 1983-84</u> | | <u>Fiscal Year 1984-85</u> | |
|--------------------|--------------------------------------|----------------------------|--------------------|----------------------------|--------------------|
| | | <u>Overstated</u> | <u>Understated</u> | <u>Overstated</u> | <u>Understated</u> |
| General | Increase/ Decrease Inventories | | \$43,014 | | \$59,225 |
| | Support from the State | \$43,014 | | \$59,225 | |
| | | | | | |
| Special Revenue | Increase/ Decrease Inventories | | \$75,717 | | \$6,726 |
| | Fund Balance | \$75,717 | | \$6,726 | |
| | | | | | |

RECOMMENDATION #4

WE RECOMMEND THE PRISON RECORD INVENTORY ADJUSTMENTS IN ACCORDANCE WITH STATE POLICY.

Cattle Valuation

As noted in our last report, gains or losses due to fluctuations in the size of its cattle herd are not reflected in the ranch operating statements. The herd, including dairy cattle, increased by 398 animals during the two fiscal years ending June 30, 1985. Cattle inventory increased by \$12,815 between July 1, 1983, and June 30, 1985. The dollar change cannot be tied solely to herd size fluctuations, but may also be related to market value fluctuations. We did not determine the components of the dollar change. Without gain and loss information presented in ranch operating statements, the ranch may show a break-even position when it is actually incurring gains or losses through herd size or market value fluctuations.

In response to our prior audit recommendation, ranch officials contacted the Accounting Division of the Department of Administration (DofA) for assistance in determining a proper method to value profit/loss on herd fluctuations. According to ranch officials, problems noted in the discussions with DofA, Accounting Division, included:

1. No authoritative pronouncements on livestock valuation methods.
2. No similar state policy accounting procedures existed to act as a guide.

These problems resulted in no action being taken during the period currently under audit.

Since the discussions with DofA ended, the following events have occurred:

1. The American Institute of Certified Public Accountants Accounting Standards Division issued Statement of Position 85-3 "Accounting by Agricultural Producers and Agricultural Cooperatives."
2. The Department of Administration, Accounting Division, issued Management Memorandum 2-84-1 dealing with merchandise inventory fluctuations.

We believe these new events may provide some authoritative guidance to the prison, the Department of Institutions, and the Department of Administration, Accounting Division in resolving this problem.

A possible solution would be to handle total livestock fluctuations as merchandise inventory adjustments are handled in Management Memorandum 2-84-1. Additionally, the prison could include footnote disclosure of the components of the adjustment amount.

RECOMMENDATION #5

WE RECOMMEND THE DEPARTMENT OF INSTITUTIONS CONTINUE TO WORK WITH THE DEPARTMENT OF ADMINISTRATION TO DETERMINE A PROPER METHOD FOR RECORDING GAINS AND LOSSES IN RANCH OPERATIONS.

Expenditure Accrual

The Department of Institutions instructed the Montana State Prison to accrue \$10,000 of expenditures at the end of fiscal year 1983-84 based on a \$138,100 Systems Developmental Bureau (SDB) Service Agreement between SDB and the Department of Institutions. This transaction was not a valid obligation of fiscal year 1983-84 in accordance with state policy and therefore it should have been recorded in the following year. In fiscal year 1983-84, the prison's expenditures are overstated by \$10,000 in the General Fund.

We addressed this situation in the Montana State Hospital report for the two fiscal years ended June 30, 1984. Language was included in House Bill 206, passed by the 1985 Legislature, to permit the Department of Institutions to utilize these accruals for the data processing system. This bill was signed into law by the Governor and the department will utilize these accruals. Therefore, we make no recommendation.

STATE COMPLIANCE

We reviewed compliance with state laws and regulations that could have a material impact on the financial schedules of the prison. In our opinion, except for the instances of noncompliance concerning the cash policies and the General Fund reversion explained below, the prison complied with state laws and regulations tested. Nothing came to our attention that causes us to believe untested compliance issues are not in accordance with applicable laws and regulations.

Cash Policies

The prison did not make deposits of its cash receipts on a timely basis. Section 17-6-105(6), MCA, requires daily deposits when accumulated coin and currency exceed \$100 or when total collections exceed \$500. In a sample of seven items, three ranged from two to eight days between receipt and deposit. Deposit amounts ranged from \$10,667 to \$9,458. Prison personnel indicated they do not always have enough personnel to allow someone time to go to town to make a deposit. Prison officials should ensure deposits are made in compliance with state law.

We noted in our previous audit that the contingent revolving fund contained an excessive balance of \$10,000 resulting in a loss of interest income to the state. The prison reduced the balance to \$7,000 as a result of our recommendation. However, in our current examination we noted reimbursements in fiscal year 1984-85 were sought 17 times in a 12-month period and the largest dollar amount requested was \$4,128. Based on this information, the account balance could be reduced by an additional \$2,000.

RECOMMENDATION #6

WE RECOMMEND THE PRISON:

- A. ESTABLISH PROCEDURES TO ENSURE COMPLIANCE WITH DEPOSIT REQUIREMENTS.

- B. FURTHER REDUCE THE CONTINGENT REVOLVING FUND BALANCE TO THE AMOUNT NECESSARY TO MEET IMMEDIATE NEEDS.

General Fund Reversion

Section 17-2-108, MCA, requires the expenditure of all Non-General Fund money before General Fund money is expended. We noted that the industries training program had revenues in excess of expenditures in fiscal year 1984-85 of \$8,865. Since this program is supported by the General Fund and was not intended to be self-supporting, the money should have been reverted to the General Fund at fiscal year-end 1985 per section 17-2-108, MCA. MSP did not revert these funds at fiscal year-end 1985.

The prison personnel indicated the money was not reverted in an effort to maintain enough operating capital in the Contingent Revolving Fund to allow the various industries training programs to pay for parts and supplies in a timely manner. Over a period of time prison personnel believed this would allow the industries training program to have operating moneys in subsequent periods and thereby reduce General Fund money in those periods.

RECOMMENDATION #7

WE RECOMMEND THE PRISON:

- A. COMPLY WITH SECTION 17-2-108, MCA; OR
- B. SEEK LEGISLATIVE APPROVAL TO RETAIN A BALANCE IN THE INDUSTRIES TRAINING PROGRAM FOR OPERATING MONEYS.

FEDERAL COMPLIANCE

Our audit of federal moneys was performed in accordance with the requirements in the U.S. Office of Management and Budget, Circular A-102, Attachment P. This circular provides for independent audits of financial operations, including compliance with certain federal laws and regulations.

The Montana State Prison was a subgrantee receiving federal funds from the Office of Public Instruction as listed on page 33. We reviewed the major compliance areas in the Vocational Industries Vehicles Maintenance Training and the Educational System Development Subgrants. Areas reviewed include specific grant provisions, subgrantee requirements, reports to grantors, and cost allowability.

Based on our examination, except for the item concerning compliance with Attachment II requirements as detailed on page 3 of this report, the agency complied with the material terms and conditions of the federal grant regulations. Nothing came to our attention indicating noncompliance in items not tested.

INTERNAL CONTROL

We have examined the financial schedules of the Montana State Prison for the fiscal years ended June 30, 1984, and 1985. We issued our opinion dated November 22, 1985, on these schedules. As part of our examination, we made a study and evaluation of the system of control of the Montana State Prison. Our study evaluated the system as required by generally accepted auditing standards and Standards for Audit of Governmental Organizations, Programs, Activities and Functions. We classified the controls in the following categories:

1. revenue, cash receipts;
2. expenditures, payables, and accruals;
3. payroll;
4. grants;
5. inmate accounts;
6. fixed assets; and
7. inventories.

We evaluated the significant controls identified in the revenue, expenditures, payroll, and inventories categories. Other auditing procedures were applied to grants and inmate account balances

maintained by the prison because we concluded that expanded substantive audit testing was more efficient than relying on the internal control system. Our preliminary review of fixed asset internal control indicated material control weaknesses. Therefore, we chose not to rely on fixed asset controls.

The purpose of our study and evaluation was to determine the nature, timing, and extent of the auditing procedures necessary for expressing an opinion on the prison's financial schedules. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole or on any of the categories of controls identified above.

The management of the Montana State Prison is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial schedules in accordance with state accounting policies. Because of inherent limitations in any system of internal accounting control, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation made for the limited purpose described in the first paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal accounting control of the Montana State Prison taken as a whole or on any of the categories of control identified in the first paragraph. However, our study and evaluation disclosed conditions that could result in

financial schedule errors that could be difficult to detect. These conditions relating to fixed assets are discussed on pages 2 through 4.

The preceding four paragraphs are intended solely for the use of management and the Legislature and should not be used for any other purpose. This restriction as to use is not intended to limit the distribution of this document which, upon acceptance by the Legislative Audit Committee, is a matter of public record.

PRIOR AUDIT RECOMMENDATIONS

The last audit of the prison was performed by our office. That audit for the two fiscal years ended June 30, 1983, contained 15 recommendations which are still applicable to prison operations. The prison concurred with all recommendations. Of the 15 recommendations, the prison implemented 11, partially implemented 3, and did not implement 1. Discussions of those recommendations still applicable to the prison but not fully implemented include fixed assets controls as discussed on pages 2 through 4, cash policies as discussed on pages 10 through 11, and cattle valuation methods as discussed on pages 8 through 9.

AUDITOR'S OPINION LETTER AND AGENCY FINANCIAL SCHEDULES

SUMMARY OF AUDIT OPINION

The auditor's opinion issued in this report is intended to convey to the reader of the financial schedules the degree of reliance that can be placed on the amounts presented.

We issued a qualified opinion on the schedules listed in paragraph seven, page 17, in the report. A qualified opinion indicates, except for the effect of certain matters which are identified in the auditor's report, the financial schedules present fairly the results of operations or changes in fund balance of such funds of an agency. These schedules are misstated due to problems which are discussed in the auditor's opinion. The reader should use caution when using the financial information in the schedules listed in paragraph seven.

The opinion issued on the financial schedules listed in paragraph eight, page 17, in this report means that the schedules are fairly stated in all material respects and the user of this Statewide Budgeting and Accounting System (SBAS) information can rely on the information presented.

Office of the Legislative Auditor

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LEGAL COUNSEL:

JOHN W. NORTHEY

The Legislative Audit Committee
of the Montana State Legislature:

We have examined the financial schedules of the various funds of the Montana State Prison for each of the fiscal years ending June 30, 1984, and 1985 as shown on pages 19 through 31. Our examination was made in accordance with generally accepted auditing standards and Standards for Audits of Governmental Organizations, Programs, Activities, and Functions and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As described in Note 1 to the financial schedules, the prison's financial schedules are prepared in accordance with state accounting policy. Accordingly, the accompanying financial schedules are not intended to present financial position and results of operations in conformity with generally accepted accounting principles.

State accounting policy requires all governmental funds to record adjustments to merchandise inventory by utilizing specific control accounts. During fiscal years 1983-84 and 1984-85 the prison did not use the control accounts specified. This resulted in misstatements as follows:

| <u>Fund</u> | <u>Account</u> | <u>Fiscal Year 1983-84</u> | | <u>Fiscal Year 1984-85</u> | |
|-----------------|------------------------|----------------------------|--------------------|----------------------------|--------------------|
| | | <u>Overstated</u> | <u>Understated</u> | <u>Overstated</u> | <u>Understated</u> |
| General | | | | | |
| | Nonbudgeted Revenue | | \$43,014 | | \$59,225 |
| | Support from the State | \$43,014 | | \$59,225 | |
| Special Revenue | | | | | |
| | Nonbudgeted Revenue | | 75,717 | | 6,726 |
| | Fund Balance | 75,717 | | 6,726 | |

During fiscal year 1983-84 fund balance in the Special Revenue Fund was improperly eliminated by adjusting current year revenue. This resulted in misstatements in fiscal year 1983-84 on the Schedule of Changes in Fund Balance. Assets and support from the state in the General Fund are understated by \$14,567. Current year revenues (reimbursements) on the Schedule of Revenues - Estimate and Actual in the Special Revenue Fund are overstated by the same amount in fiscal year 1983-84 and liabilities are understated.

The prison improperly utilized revenue classifications to record federal grant receipts in the Internal Service Fund during fiscal years 1983-84 and 1984-85. This resulted in misstatement on the Schedule of Revenues - Estimate and Actual as follows:

| <u>Fund Classification</u> | <u>Fiscal Year</u> | <u>Misstatement Over(Under)</u> |
|----------------------------|--------------------|-------------------------------------|
| Internal Service Fund | | |
| | 1983-84 | |
| Federal Assistance | | \$ (180,651) |
| Reimbursements | | 180,651 |
| | 1984-85 | |
| Federal Assistance | | \$ (31,196) |
| Grants, Gifts, & Donations | | 31,196 |

During fiscal year 1984-85, the Department of Institutions (DoI) reestablished a cash balance in two accounting entities at the prison. The prior year revenue adjustments account was improperly utilized by DoI. This resulted in a \$30,217 overstatement of prior year revenue adjustments in the Special Revenue Fund on the Schedule of Changes in Fund Balance.

In our opinion, except for the effect of the matters discussed in paragraphs three through six, the financial schedules listed below present fairly the results of operations and the changes in fund balance of such funds of the Montana State Prison for the two fiscal years ended June 30, 1985, in conformity with the basis of accounting described in Note 1 which, except for the change, with which we concur, in reporting inmate services as discussed in Note 6, has been applied on a consistent basis.

| <u>Schedule Name</u> | <u>Fund</u> | <u>Fiscal Year</u> |
|---|--|---|
| Schedule of Changes in Fund Balance | General Special Revenue | Two Fiscal Years Ended June 30, 1985 |
| Schedule of Revenue - Estimate and Actual | General Special Revenue Internal Service | 1983-84, 1984-85 1983-84 1983-84, 1984-85 |

In our opinion, the financial schedules listed below present fairly the results of operations and the changes in fund balance of such funds of the Montana State Prison for the two fiscal years

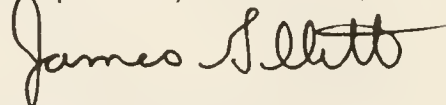
ended June 30, 1985, in conformity with the basis of accounting described in Note 1 which, except for the change, with which we concur, in reporting inmate services as discussed in Note 6, has been applied on a consistent basis.

| <u>Schedule Name</u> | <u>Fund</u> | <u>Fiscal Year</u> |
|--|--|--|
| Schedule of Changes in Fund Balance | Internal Service | Two Fiscal Years Ended June 30, 1985 |
| Schedule of Revenue - Estimate and Actual | Special Revenue | 1984-85 |
| Schedule of Program Expenditures by Fund - Budget and Actual | General Special Revenue Internal Service | 1983-84, 1984-85 1983-84, 1984-85 1983-84, 1984-85 |
| Schedule of Program Expenditures by Object | * | 1983-84, 1984-85 |
| Schedule of Additions and Deductions to Agency Fund Assets | Agency | Two Fiscal Years Ended June 30, 1985 |

*This schedule is not presented by fund

Our examination was made for the purpose of forming an opinion on the financial schedules referred to in paragraph one. The accompanying Schedule of Grants and the Schedule of Live-stock Inventory are presented for additional analysis and disclosure purposes. The schedules have been subjected to the tests and other auditing procedures applied in the examination of the financial schedules above and, in our opinion, except for the effect, if any, of the matters discussed in paragraphs three through six, are fairly stated in all material respects in relation to the financial schedules referred to in paragraph one.

Respectfully submitted,



James Gillett, CPA
Deputy Legislative Auditor

November 22, 1985

MONTANA STATE PRISON
SCHEDULE OF CHANGES IN FUND BALANCE
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1985

| | <u>General Fund</u> | <u>Special Revenue Fund</u> | <u>Internal Service Fund</u> |
|---|-------------------------|-------------------------------------|--------------------------------------|
| FUND BALANCE, July 1, 1983 | \$ -0- | \$ 516,732 | \$3,835,199 |
| ADDITIONS: | | | |
| Fiscal Year 1983-84 | | | |
| Budgeted Revenues | \$ 114,755 | \$ 393,563 | \$1,997,132 |
| Nonbudgeted Revenues | 1,996 | | 25,147 |
| Total Revenues | <u>116,751</u> | <u>393,563</u> | <u>2,022,279</u> |
| Direct Entries to Fund Balance | 264,513 | | |
| Prior Year Revenue Adjustment | 156 | | |
| Prior Year Expenditure Adjustment | 31,076 | 4,174 | 7,480 |
| Support From State of Montana | 8,617,496 | | |
| Cash Transfer In | | 248,881 | |
| Fiscal Year 1984-85 | | | |
| Budgeted Revenue | 150,402 | 422,543 | 2,200,007 |
| Nonbudgeted Revenue | 12 | (77,788) | -0- |
| Total Revenues | <u>150,414</u> | <u>344,755</u> | <u>2,200,007</u> |
| Cash Transfer In | | 395,659 | 14,876 |
| Support From State of Montana | 9,879,850 | | |
| Prior Year Revenue Adjustments | | (38,596) | (614) |
| Total Additions | <u>19,060,256</u> | <u>1,348,436</u> | <u>4,244,028</u> |
| REDUCTIONS: | | | |
| Fiscal Year 1983-84 | | | |
| Budgeted Expenditures | 9,029,992 | 789,554 | 2,260,204 |
| Nonbudgeted Expenditures | | | (125,745) |
| Total Expenditures | <u>9,029,992</u> | <u>789,554</u> | <u>2,134,459</u> |
| Prior Year Revenue Adjustment | | 11,928 | 29,375 |
| Cash Transfer Out | | | 75,916 |
| Direct Entries to Fund Balance | | 23,273 | 240,985 |
| Fiscal Year 1984-85 | | | |
| Budgeted Expenditures | 9,820,677 | 827,270 | 2,076,591 |
| Nonbudgeted Expenditures | | | 102,646 |
| Total Expenditures | <u>9,820,677</u> | <u>827,270</u> | <u>2,179,237</u> |
| Prior Year Expenditure Adjustments | 49,624 | (811) | (55,916) |
| Nonbudgeted Prior Year Expenditure Adjustments | | | 10,914 |
| Direct Entries to Fund Balance | 159,963 | (6,726) | (344,181) |
| Total Reductions | <u>19,060,256</u> | <u>1,644,488</u> | <u>4,270,789</u> |
| FUND BALANCE - June 30, 1985 | \$ -0- | \$ 220,680 | \$3,808,438 |

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 27 through 31.

MONTANA STATE PRISON
SCHEDULE OF REVENUES - ESTIMATE AND ACTUAL
FOR FISCAL YEAR ENDED JUNE 30, 1985

| | <u>Reimbursements</u> | <u>Rentals, Leases, and Royalties</u> | <u>Sale of Documents, Merchandise, and Property</u> | <u>Federal Assistance</u> | <u>Miscellaneous</u> | <u>Grants, Gifts, Bequests & Donations</u> | <u>Other Sources and Uses</u> | <u>Totals</u> |
|------------------------|-----------------------|---|---|-------------------------------|----------------------|--|---------------------------------------|--------------------|
| General Fund | | | | | | | | |
| Estimated Revenue | \$ 433 | \$115,866 | | | \$ -0- | | | \$ 116,299 |
| Actual Revenue | <u>639</u> | <u>149,763</u> | | | <u>12</u> | | | <u>150,414</u> |
| Collections | | | | | | | | |
| Over (Under) Estimate | <u>\$ 206</u> | <u>\$ 33,897</u> | | | <u>\$ 12</u> | | | <u>\$ 34,115</u> |
| Special Revenue Fund | | | | | | | | |
| Estimated Revenue | \$ 82,256 | | \$ 327,439 | \$22,596 | \$ -0- | | \$ -0- | \$ 432,291 |
| Actual Revenue | <u>64,993</u> | | <u>340,890</u> | <u>16,660</u> | <u>600</u> | | <u>(78,388)</u> | <u>344,755</u> |
| Collections | | | | | | | | |
| Over (Under) Estimate | <u>\$(17,263)</u> | | <u>\$ 13,451</u> | <u>\$(5,936)</u> | <u>\$ 600</u> | | <u>\$(78,388)</u> | <u>\$ (87,536)</u> |
| Internal Services Fund | | | | | | | | |
| Estimated Revenue | | | \$2,218,580 | | | \$ 74,660 | | \$2,293,240 |
| Actual Revenue | | | <u>2,168,811</u> | | | <u>31,196</u> | | <u>2,200,007</u> |
| Collections | | | | | | | | |
| Over (Under) Estimate | | | <u>\$ (49,769)</u> | | | <u>\$(43,464)</u> | | <u>\$ (93,233)</u> |

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 27 through 31.

MONTANA STATE PRISON
SCHEDULE OF REVENUE - ESTIMATE AND ACTUAL
FOR FISCAL YEAR ENDED JUNE 30, 1984

| | <u>Reimbursements</u> | <u>Rentals, Leases, and Royalties</u> | <u>Sale of Documents, Merchandise, and Property</u> | <u>Federal Assistance</u> | <u>Miscellaneous</u> | <u>Grants, Gifts, Bequests, and Donations •</u> | <u>Totals</u> |
|-----------------------|-----------------------|---|---|-------------------------------|----------------------|---|---------------------|
| General Fund | | | | | | | |
| Estimated Revenue | \$ 6,700 | \$ 79,449 | | | \$ -0- | | \$ 86,149 |
| Actual Revenue | <u>433</u> | <u>114,322</u> | | | <u>1,996</u> | | <u>116,751</u> |
| Collections | | | | | | | |
| Over (Under) Estimate | <u>\$ (6,267)</u> | <u>\$ 34,873</u> | | | <u>\$1,996</u> | | <u>\$ 30,602</u> |
| Special Revenue Fund | | | | | | | |
| Estimated Revenue | \$ 45,035 | | \$ 400,513 | \$28,408 | | | \$ 473,956 |
| Actual Revenue | <u>73,283</u> | | <u>296,575</u> | <u>23,705</u> | | | <u>393,563</u> |
| Collections | | | | | | | |
| Over (Under) Estimate | <u>\$ 28,248</u> | | <u>\$ (103,938)</u> | <u>\$ (4,703)</u> | | | <u>\$ (80,393)</u> |
| Internal Service Fund | | | | | | | |
| Estimated Revenue | \$150,056 | | \$2,146,079 | | | \$ 74,660 | \$2,370,795 |
| Actual Revenue | <u>180,651</u> | | <u>1,841,628</u> | | | <u>-0-</u> | <u>2,022,279</u> |
| Collections | | | | | | | |
| Over (Under) Estimate | <u>\$ 30,595</u> | | <u>\$ (304,451)</u> | | | <u>\$ (74,660)</u> | <u>\$ (348,516)</u> |

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 27 through 31.

MONTANA STATE PRISON
SCHEDULE OF PROGRAM EXPENDITURES BY FUND - BUDGET AND ACTUAL
FOR FISCAL YEAR ENDED JUNE 30, 1985

| | <u>Care and Custody</u> | <u>Ranch and Dairy</u> | <u>License Plate Factory</u> | <u>Prison Industries Revolving</u> | <u>Prison Canteen</u> | <u>Prison Industries Training</u> | <u>Total</u> |
|---------------------------------|-----------------------------|----------------------------|--------------------------------------|--|---------------------------|---|-------------------|
| GENERAL FUND | | | | | | | |
| Budget | \$9,720,612 | | | | | \$128,549 | \$ 9,849,161 |
| Actual | | | | | | | |
| Personal Services | 7,124,326 | | | | | 76,839 | 7,201,165 |
| Operating Expenses | 2,432,285 | | | | | 42,925 | 2,475,210 |
| Equipment | 136,293 | | | | | 8,009 | 144,302 |
| Total Actual | <u>9,692,904</u> | | | | | <u>127,773</u> | <u>9,820,677</u> |
| Unspent Appropriation Authority | <u>\$ 27,708</u> | | | | | <u>\$ 776</u> | <u>\$ 28,484</u> |
| SPECIAL REVENUE FUND | | | | | | | |
| Budget | \$ 137,558 | | \$522,895 | | \$450,439 | | \$ 1,110,892 |
| Actual | | | | | | | |
| Personal Services | 105,079 | | 65,210 | | | | 170,289 |
| Operating Expenses | 27,106 | | 278,251 | | 350,319 | | 655,676 |
| Equipment | | | 1,305 | | | | 1,305 |
| Total Actual | <u>132,185</u> | | <u>344,766</u> | | <u>350,319</u> | | <u>827,270</u> |
| Unspent Appropriation Authority | <u>\$ 5,373</u> | | <u>\$178,129</u> | | <u>\$100,120</u> | | <u>\$ 283,622</u> |
| INTERNAL SERVICE FUND | | | | | | | |
| Budget | | \$1,895,808 | | \$482,918 | | \$269,692 | \$ 2,648,418 |
| Actual | | | | | | | |
| Personal Services | | 467,789 | | 137,646 | | 13,236 | 618,671 |
| Operating Expenses | | 783,383 | | 327,770 | | 82,008 | 1,193,161 |
| Equipment | | 361,732 | | 326 | | 5,327 | 367,385 |
| Capital Outlay | | 20 | | | | | 20 |
| Total Actual | | <u>1,612,924</u> | | <u>465,742</u> | | <u>100,571</u> | <u>2,179,237</u> |
| Unspent Appropriation Authority | | <u>\$ 282,884</u> | | <u>\$ 17,176</u> | | <u>\$169,121</u> | <u>\$ 469,181</u> |
| PROGRAM TOTAL | | | | | | | |
| Budget | \$9,858,170 | \$1,895,808 | \$522,895 | \$482,918 | \$450,439 | \$398,241 | \$13,608,471 |
| Actual | | | | | | | |
| Personal Services | 7,229,405 | 467,789 | 65,210 | 137,646 | | 90,075 | 7,990,125 |
| Operating Expenses | 2,459,391 | 783,383 | 278,251 | 327,770 | 350,319 | 124,933 | 4,324,047 |
| Equipment | 136,293 | 361,732 | 1,305 | 326 | | 13,336 | 512,992 |
| Capital Outlay | | 20 | | | | | 20 |
| Total Actual | <u>9,825,089</u> | <u>1,612,924</u> | <u>344,766</u> | <u>465,742</u> | <u>350,319</u> | <u>228,344</u> | <u>12,827,184</u> |
| Unspent Appropriation Authority | <u>\$ 33,081</u> | <u>\$ 282,884</u> | <u>\$178,129</u> | <u>\$ 17,176</u> | <u>\$100,120</u> | <u>\$169,897</u> | <u>\$ 781,287</u> |

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 27 through 31.

MONTANA STATE PRISON
SCHEDULE OF PROGRAM EXPENDITURES BY FUND - BUDGET AND ACTUAL
FOR FISCAL YEAR ENDED JUNE 30, 1984

| | <u>Care and Custody</u> | <u>Ranch and Dairy</u> | <u>License Plate Factory</u> | <u>Prison Industries Revolving</u> | <u>Prison Canteen</u> | <u>Prison Industries Training</u> | <u>Total</u> |
|---------------------------------|-----------------------------|----------------------------|--------------------------------------|--|---------------------------|---|---------------------|
| GENERAL FUND | | | | | | | |
| Budget | \$9,214,994 | | | | | \$183,232 | \$ 9,398,226 |
| Actual | | | | | | | |
| Personal Services | 6,494,630 | | | | | 3,750 | 6,498,380 |
| Operating Expenses | 2,267,699 | | | | | 54,120 | 2,321,819 |
| Equipment | 198,070 | | | | | 11,723 | 209,793 |
| Total Actual | <u>8,960,399</u> | | | | | <u>69,593</u> | <u>9,029,992</u> |
| Unspent Appropriation Authority | <u>\$ 254,595</u> | | | | | <u>\$113,639</u> | <u>\$ 368,234</u> |
| SPECIAL REVENUE FUND | | | | | | | |
| Budget | \$ 219,049 | | \$496,041 | | \$400,513 | | \$ 1,115,603 |
| Actual | | | | | | | |
| Personal Services | 104,730 | | 48,099 | | | | 152,829 |
| Operating Expenses | 83,511 | | 245,596 | | 288,786 | | 617,893 |
| Equipment | 18,832 | | | | | | 18,832 |
| Total Actual | <u>207,073</u> | | <u>293,695</u> | | <u>288,786</u> | | <u>789,554</u> |
| Unspent Appropriation Authority | <u>\$ 11,976</u> | | <u>\$202,346</u> | | <u>\$111,727</u> | | <u>\$ 326,049</u> |
| INTERNAL SERVICE FUND | | | | | | | |
| Budget | | \$1,898,748 | | \$539,441 | | \$352,257 | \$ 2,790,446 |
| Actual | | | | | | | |
| Personal Services | | 418,891 | | 125,985 | | | 544,876 |
| Operating Expenses | | 803,932 | | 251,831 | | 11,375 | 1,067,138 |
| Equipment | | 435,917 | | 5,000 | | 9,343 | 450,260 |
| Capital Outlay | | 72,185 | | | | | 72,185 |
| Total Actual | | <u>1,730,925</u> | | <u>382,816</u> | | <u>20,718</u> | <u>2,134,459</u> |
| Unspent Appropriation Authority | | <u>\$ 167,823</u> | | <u>\$156,625</u> | | <u>\$331,539</u> | <u>\$ 655,987</u> |
| PROGRAM TOTAL | | | | | | | |
| Budget | \$9,434,043 | \$1,898,748 | \$496,041 | \$539,441 | \$400,513 | \$535,489 | \$13,304,275 |
| Actual | | | | | | | |
| Personal Services | 6,599,360 | 418,891 | 48,099 | 125,985 | | 3,750 | 7,196,085 |
| Operating Expenses | 2,351,210 | 803,932 | 245,596 | 251,831 | 288,786 | 65,495 | 4,006,850 |
| Equipment | 216,902 | 435,917 | | 5,000 | | 21,066 | 678,885 |
| Capital Outlay | | 72,185 | | | | | 72,185 |
| Total Actual | <u>9,167,472</u> | <u>1,730,925</u> | <u>293,695</u> | <u>382,816</u> | <u>288,786</u> | <u>90,311</u> | <u>11,954,005</u> |
| Unspent Appropriation Authority | <u>\$ 266,571</u> | <u>\$ 167,823</u> | <u>\$202,346</u> | <u>\$156,625</u> | <u>\$111,727</u> | <u>\$445,178</u> | <u>\$ 1,350,270</u> |

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 27 through 31.

MONTANA STATE PRISON
SCHEDULE OF PROGRAM EXPENDITURES BY OBJECT
FOR FISCAL YEAR ENDED JUNE 30, 1985

| | Care and Custody | Ranch and Dairy | License Plate Factory | Prison Industries Revolving | Prison Canteen | Prison Industries Training | Total |
|----------------------------|---------------------|--------------------|-----------------------------|-----------------------------------|-------------------|----------------------------------|---------------------|
| PERSONAL SERVICES | | | | | | | |
| Salaries | \$5,688,869 | \$ 317,851 | \$ 41,582 | \$ 79,501 | | \$ 53,542 | \$ 6,181,345 |
| Hourly Wages | | 64,457 | 12,611 | 37,065 | | 22,519 | 136,652 |
| Employee Benefits | 1,540,536 | 85,481 | 11,017 | 21,080 | | 14,014 | 1,672,128 |
| Total Personal Services | <u>7,229,405</u> | <u>467,789</u> | <u>65,210</u> | <u>137,646</u> | | <u>90,075</u> | <u>7,990,125</u> |
| OPERATING EXPENSES | | | | | | | |
| Contracted Services | 405,977 | 14,507 | 6,875 | 22,127 | | 18,824 | 468,310 |
| Supplies and Materials | 1,219,150 | 451,428 | 230,079 | 68,011 | \$ 1,986 | 50,230 | 2,020,884 |
| Communications | 71,756 | 5,326 | 166 | 4,552 | | 419 | 82,219 |
| Travel | 46,260 | 2,776 | | 2,091 | | 3,071 | 54,198 |
| Rent | 9,622 | 7,457 | | 656 | | 857 | 18,592 |
| Utilities | 398,306 | 83,667 | 29,629 | 14,137 | | 240 | 525,979 |
| Repair and Maintenance | 153,716 | 82,934 | 11,023 | 32,177 | 241 | 4,090 | 284,181 |
| Other Expenses | 154,604 | 145,986 | 479 | 52,653 | 24,244 | 1,483 | 379,449 |
| Goods Purchased for Resale | | (10,698) | | 131,366 | 323,848 | 45,719 | 490,235 |
| Total Operating Expenses | <u>2,459,391</u> | <u>783,383</u> | <u>278,251</u> | <u>327,770</u> | <u>350,319</u> | <u>124,933</u> | <u>4,324,047</u> |
| EQUIPMENT | | | | | | | |
| Equipment | 136,293 | 5,031 | 1,305 | 326 | | 13,336 | 156,291 |
| Livestock | | 356,701 | | | | | 356,701 |
| Total Equipment | <u>136,293</u> | <u>361,732</u> | <u>1,305</u> | <u>326</u> | | <u>13,336</u> | <u>512,992</u> |
| CAPITAL OUTLAY | | | | | | | |
| Other Improvements | | 20 | | | | | 20 |
| Total Capital Outlay | | <u>20</u> | | | | | <u>20</u> |
| TOTAL PROGRAM EXPENDITURES | <u>\$9,825,089</u> | <u>\$1,612,924</u> | <u>\$344,766</u> | <u>\$465,742</u> | <u>\$350,319</u> | <u>\$228,344</u> | <u>\$12,827,184</u> |

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 27 through 31.

MONTANA STATE PRISON
SCHEDULE OF PROGRAM EXPENDITURES BY OBJECT
FOR FISCAL YEAR ENDED JUNE 30, 1984

| | Care and Custody | Ranch and Dairy | License Plate Factory | Prison Industries Revolving | Prison Canteen | Prison Industries Training | Total |
|---|---------------------|--------------------|-----------------------------|-----------------------------------|-------------------|----------------------------------|---------------------|
| PERSONAL SERVICES | | | | | | | |
| Salaries | \$5,334,978 | \$ 341,471 | \$ 39,593 | \$102,340 | | \$ 3,033 | \$ 5,821,415 |
| Employee Benefits | 1,264,382 | 77,420 | 8,506 | 23,645 | | 717 | 1,374,670 |
| Total Personal Services | <u>6,599,360</u> | <u>418,891</u> | <u>48,099</u> | <u>125,985</u> | | <u>3,750</u> | <u>7,196,085</u> |
| OPERATING EXPENSES | | | | | | | |
| Contracted Services | 337,130 | 27,593 | 15,180 | 7,251 | \$ 282 | 14,457 | 401,893 |
| Supplies and Materials | 1,201,544 | 447,735 | 7,234 | 43,903 | 1,186 | 19,396 | 1,720,998 |
| Communications | 61,543 | 5,273 | 229 | 2,594 | 9 | | 69,648 |
| Travel | 24,345 | 2,673 | 475 | 485 | | 220 | 28,198 |
| Rent | 8,212 | 12,480 | -0- | 376 | | 25 | 21,093 |
| Utilities | 383,308 | 77,198 | 31,276 | 12,333 | | 62 | 504,177 |
| Repair and Maintenance | 190,430 | 68,751 | 493 | 24,474 | 221 | 1,128 | 285,497 |
| Other Expenses | 144,698 | 161,408 | 6,643 | 62,156 | 17,024 | 27,673 | 419,602 |
| Goods Purchased for Resale | -0- | 821 | 184,066 | 98,259 | 270,064 | 2,534 | 555,744 |
| Total Operating Expenses | <u>2,351,210</u> | <u>803,932</u> | <u>245,596</u> | <u>251,831</u> | <u>288,786</u> | <u>65,495</u> | <u>4,006,850</u> |
| EQUIPMENT | | | | | | | |
| Equipment | 216,902 | 31,985 | | | | 21,066 | 269,953 |
| Livestock | -0- | 403,932 | | 5,000 | | -0- | 408,932 |
| Total Equipment | <u>216,902</u> | <u>435,917</u> | | <u>5,000</u> | | <u>21,066</u> | <u>678,885</u> |
| CAPITAL OUTLAY | | | | | | | |
| Other Improvements | | 72,185 | | | | | 72,185 |
| Total Capitol Outlay | | <u>72,185</u> | | | | | <u>72,185</u> |
| TOTAL PROGRAM EXPENDITURES AND TRANSFERS | <u>\$9,167,472</u> | <u>\$1,730,925</u> | <u>\$293,695</u> | <u>\$382,816</u> | <u>\$288,786</u> | <u>\$90,311</u> | <u>\$11,954,005</u> |

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 27 through 31.

MONTANA STATE PRISON
SCHEDULE OF ADDITIONS AND DEDUCTIONS
TO AGENCY FUND ASSETS
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1985*

| | |
|-------------------------------|------------------|
| JULY 1, 1983 - ASSET BALANCE | \$ 58,165 |
| ADDITIONS: | 562,092 |
| DEDUCTIONS: | <u>(556,375)</u> |
| JULY 1, 1984 - ASSET BALANCE | <u>63,882</u> |
| ADDITIONS: | 649,072 |
| DEDUCTIONS: | <u>(637,427)</u> |
| JUNE 30, 1985 - ASSET BALANCE | <u>\$ 75,527</u> |

*Note: This Agency Fund is used to account for inmate moneys. The additions and deductions shown above were taken from the Department of Institutions' Resident Accounts System. This system more accurately reflects the volume of activity in these accounts as SBAS is only adjusted for the net difference on a periodic basis.

MONTANA STATE PRISON
DEPARTMENT OF INSTITUTIONS
NOTES TO FINANCIAL SCHEDULES
June 30, 1984 and June 30, 1985

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of significant accounting policies for the Montana State Prison.

Basis of Presentation

The financial schedules are prepared from the Statewide Budgeting and Accounting System without adjustments. Accounts are organized on the basis of funds according to state law. The following fund types are used by the agency:

GOVERNMENTAL FUND TYPES

The acquisition, use, and balances of this agency's expendable financial resources and the related current liabilities, except those accounted for in proprietary funds, are accounted for through governmental funds.

General Fund - accounts for all financial resources except those required to be accounted for in another fund.

Special Revenue Fund - accounts for the proceeds of specific revenue sources that are legally restricted to expenditure for specified purposes. This fund included the following activities:

- License Plate Factory
- Alcohol Treatment
- Federal Training Assistance
- World of Work
- Adult Basic Education and University Research Center
- Out-of-State Inmates
- Post Secondary Education
- Insurance Reimbursement (Fire Fund)
- Montana State Prison Canteen

PROPRIETARY FUND TYPES

Internal Service Funds - accounts for the prison ranch and industrial operations. The prison ranch and industrial operations are self-supporting programs which parallel those of normal business.

FIDUCIARY FUND TYPE

Agency Fund - is used to account for inmate moneys held by this agency as an agent for the inmates.

GENERAL FIXED ASSET GROUP OF ACCOUNTS

Fixed assets from the General Fund and the Special Revenue Fund are included in the General Fixed Asset Group of Accounts. Fixed assets are accounted for at cost or, if the cost is not practicably determinable, at estimated original cost. Where applicable the estimated original cost is based upon the price level method outlined in the Montana Operations Manual Volume II 1700.40 through 1700.43.

Basis of Accounting

The Montana State Prison utilizes the modified accrual basis of accounting which is described in the Montana Operations Manual. Under the modified accrual basis of accounting, a valid obligation exists when the associated liability is incurred except for the following items which are also considered valid obligations under state accounting policy.

- If the appropriation provided funds to complete a given project, the entire amount of an unperformed contract may be accrued even though the services are rendered in fiscal years subsequent to the fiscal year in which the expenditure is accrued.
- The anticipated cost of equipment is expensed in the fiscal year in which budgeted.
- Goods ordered, but not received as of the fiscal year-end, may be accrued if the purchase order was issued in the fiscal year in which the anticipated expenditure is to be accrued.

Budget Information

A fixed annual basis of budgeting is utilized. Under the fixed annual method, appropriations of specific dollar amounts are set for each fiscal year of a biennium by the Legislature. Appropriations control financial operations during each fiscal year. At the end of each year, General Fund, Special Revenue Fund, and Internal Service Fund appropriation authority reverts to the fund of original appropriation. The reverted appropriation authority may be used in the subsequent year as authorization for valid prior year obligations. Budget amendments represent the authorization to spend funds not available for consideration by the Legislature. They are subject to approval of the Governor, through the Office of Budget and Program Planning.

Vacation and Sick Leave

Employees for the agency accumulate both vacation and sick leave. Employees are paid for 100 percent of unused vacation and 25 percent of unused sick leave credits upon termination. Accumulated unpaid liabilities for vacation and sick leave are not reflected in the financial schedules of the Montana State Prison. Expenditures for termination pay currently are absorbed in the annual operating costs of the prison. At pay period ending July 5, 1985, the agency had a liability of \$391,022 for vacation leave and \$133,035 for sick leave. Since the prison is staffed 24 hours per day, 7 days per week, no natural cutoff existed at June 30, 1985, thus it was not practical to determine the exact amount of the liability at June 30, 1985; however, there would not be a material difference from the above amounts.

2. PENSION PLAN

Employees are covered by the Montana Public Employees' Retirement System (PERS) and the Teachers' Retirement System (TRS). The agency's contribution to these plans is shown below. (The prison has less than 10 employees participating in TRS. It

was not practical to show these contributions separately, thus they are presented in a combined total.)

| | <u>Fiscal Year 1983-84</u> | <u>Fiscal Year 1984-85</u> |
|---------------------------------|--------------------------------|--------------------------------|
| Retirement System Contributions | \$376,452 | \$398,832 |

3. FUND BALANCE

A. The General Fund is a Statewide Fund. Agencies do not have a separate General Fund since their only authority is to pay obligations from the Statewide General Fund as long as they stay within their appropriation limits. Thus on an agency schedule the beginning and ending fund balance will always be zero.

B. Fund balance, as presented on the financial schedules, contains a Reserve for Inventory in the following amounts. These amounts are not available for expenditure or appropriation.

| | <u>June 30, 1985</u> |
|---------------------------------------|----------------------|
| General Fund (Support from the State) | \$ 59,225 |
| Special Revenue Fund | 271,598 |

4. INVENTORIES

Governmental Funds supply inventories are valued using a replacement cost valuation system which, due to rapid turnover, approximates historical cost. Supplies are recognized as an expenditure at the time of purchase.

Livestock inventory of \$1,480,766 in the Internal Service Fund is valued at market value at June 30, 1985.

5. INSURANCE

Montana State Prison is insured through insurance plans administered by the Department of Administration.

6. CHANGE IN ACCOUNTING METHOD

In fiscal year 1983-84 the prison and the prison ranch accounted for pay for inmate services as Miscellaneous expenditures as part of operating expenses in all funds. However, in fiscal year 1984-85 the Department of Administration, Accounting Division, requested the prison ranch account for these payments as personal services expenditures in the Internal Service Fund. The dollar amount of this change in fiscal year 1984-85 is \$136,652. Users of the financial schedule should be aware of this change when making comparisons.

7. CONTINGENCIES

At any one time, the number of civil actions pending against the Montana State Prison varies from 50 to 60. The prison has not incurred any significant liability as a result of the many cases filed by inmate plaintiffs. Throughout the course of a year, it is not uncommon to incur expenses of several thousand dollars for legal fees on behalf of the plaintiff. Agency legal council indicated two legal actions may result in settlements adverse to the state. These actions include a medical malpractice case asking over \$320,000 in damages and a suit seeking equal pay for equal work for which damages are undeterminable at this time.

8. SLAUGHTERHOUSE

The prison had operated a slaughterhouse, butcher, and packing facility for many years as part of the ranch operations. This facility provided meat and meat products to all Montana institutions. In fiscal year 1983-84 the facility was found not to be cost efficient and was closed on July 1, 1985. The facility is now being used as a training center for the vocational education meat cutting class. This operation purchases slaughtered beef and provides butcher beef to the prison and the Swan River Youth Forest Camp.

MONTANA STATE PRISON
SCHEDULE OF FEDERAL SUBGRANT RECEIPTS
FISCAL YEARS ENDED JUNE 30, 1984 AND 1985

| <u>Subgrant from/ Description</u> | <u>Grant Number</u> | <u>Cash Receipts Fiscal Year June 30, 1984</u> | <u>Cash Receipts Fiscal Year June 30, 1985</u> |
|---------------------------------------|-----------------------|--|--|
| <u>Office of Public Instruction</u> | | | |
| Adult Basic Education | 84-56-6006-180 | \$15,047 | |
| | 85-56-6006-231 | | \$14,974 |
| Chapter I | 84-62-6006-2481 | 12,159 | |
| | 85-42-6006-3481 | | 6,785 |
| Chapter II | 85-39-6006-3547 | | 600 |
| Vocational Industries | | | |
| Vehicle Maintenance | | | |
| Training | 83-9029-20-18-0242 | 149,941 | |
| Educational System Development | 84-6006-05-20-17-D314 | 30,660 | 31,196 |

This schedule is prepared on the cash basis and accordingly the amounts do not necessarily agree to the financial schedules.

MONMONTANA STATE PRISON
SCHEDULE OF LIVESTOCK INVENTORY
JUNE 30, 1985

| | <u>Estimated Average Weight (LBS)</u> | <u>Price Per Head/Pair</u> | <u>Price Per Hundred-Weight</u> | <u>Total Valuation</u> |
|--|---|--------------------------------|-------------------------------------|----------------------------|
| <u>Bulls</u> | | | | |
| 54 2 Years and Older | N/A | \$1,000 | | \$ 54,000 |
| 4 Yearling | N/A | 800 | | 3,200 |
| 4 Yearling Bull-Markeurd | N/A | 800 | | 3,200 |
| 2 Two Year Olds-Markeurd | N/A | 1,000 | | 2,000 |
| <u>Breeding Cow & Calves</u> | | | | |
| 1,130 Cow-Calf Pairs | N/A | 600 | | 678,000 |
| 27 Cows with Calves | 1000 | | \$43.00 | 11,610 |
| <u>Replacement Heifers</u> | | | | |
| 287 Heifers | 700 | | 51.00 | 102,459 |
| <u>Feeders Not in Feedlot</u> | | | | |
| 480 Steers | 600 | | 69.50 | 200,160 |
| 242 Heifers | 600 | | 61.00 | 88,572 |
| <u>Dairy Cattle</u> | | | | |
| 248 Milking & Dry Cows | N/A | 850 | | 210,800 |
| 58 0 to 16 Month Heifers | N/A | 250 | | 14,500 |
| 40 6-12 Month Heifers | N/A | 325 | | 13,000 |
| 47 12-18 Month Heifers | N/A | 375 | | 17,625 |
| 97 18 Month-Fresh Heifer | N/A | 600 | | 58,200 |
| 6 0-6 Month Bull | N/A | 40 | | 240 |
| 1 6-12 Month Bull | N/A | 200 | | 200 |
| 1 12-18 Month Bull | N/A | 800 | | 800 |
| 1 2 Year Bull | N/A | 1,000 | | 1,000 |
| <u>3,859 Totals For Cattle</u> | | | | <u>\$1,459,566</u> |
| <u>Horses</u> | | | | |
| 29 Useable | N/A | 700 | | 20,300 |
| 3 Foals | N/A | 300 | | 900 |
| <u>3,891 Total Livestock Valuation</u> | | | | <u>\$1,480,766</u> |

Total Livestock Numbers by Class

64 Bulls
1,157 Breeding Cows
1,130 Calves
287 Replacement Heifers
722 Feeders Not in Feedlot
499 Dairy
32 Horses

3,891 Total Livestock Numbers

AGENCY RESPONSE

DEPARTMENT OF INSTITUTIONS



TED SCHWINDEN, GOVERNOR

1539 11TH AVENUE

STATE OF MONTANA

(406) 444-3930

HELENA, MONTANA 59620

RECEIVED

JAN 27 1986

MONTANA LEGISLATIVE AUDITOR

January 24, 1986

Legislative Audit Committee
of the Montana State Legislature
Office of the Legislative Auditor
State Capitol
Helena, MT 59620

We have reviewed the audit report prepared by the Office of the Legislative Auditor for the Montana State Prison.

The report provides a very welcome service and is sincerely appreciated.

Our response to the recommendations is attached.

A handwritten signature in dark ink, appearing to read "Carroll V. South".

CARROLL V. SOUTH
Director

CVS:sd

RECOMMENDATION #1

We recommend the Prison:

- A. Continue to improve the accounting control for fixed assets.
- B. Comply with property management standards issued by the Federal Government for property acquired with federal funds.

RESPONSE

- A. Concur. The Prison will continue to improve accounting control for fixed assets.
- B. Concur. The Prison will identify those assets purchased with Federal monies and maintain proper accounting records.

RECOMMENDATION #2

We recommend the Department of Institutions establish procedures to ensure entries made for other entities do not misstate financial records.

RESPONSE

Concur. The entry made to the federal boarder accounting entity was a coding error.

RECOMMENDATION #3

We recommend the Department of Institutions work with the Department of Administration, Accounting Division, to ensure entries made for institutions are proper.

RESPONSE

Concur. The Institutions now have separate accounting entities for each source of Revenue; therefore, this error should not occur in the future.

RECOMMENDATION #4

We recommend the prison record inventory adjustments in accordance with state policy.

RESPONSE

Concur. The Prison will comply with Management Memo 2-84-1 in recording Inventory adjustments at fiscal-year-end.

RECOMMENDATION #5

We recommend the Department of Institutions continue to work with the Department of Administration to determine a proper method for recording gains and losses in ranch operations.

RESPONSE

Concur. The Department of Administration in conjunction with Ranch personnel are attempting to develop a management memo which would establish procedures for recording gains/losses in cattle valuation on SBAS.

RECOMMENDATION #6

We recommend the prison:

- A. Establish procedures to ensure compliance with deposit requirements.
- B. Further reduce the contingent revolving fund balance to the amount necessary to meet immediate needs.

RESPONSE

- A. Concur. Deposits will be made in accordance with MOM Volume II, Chapter 2-1200.
- B. Concur. The Contingent Revolving Fund will be reviewed and the balance reduced as recommended.

RECOMMENDATION #7

We recommend the Prison:

- A. Comply with Section 17-2-108, MCA; or
- B. Seek Legislative approval to retain a balance in the industries training program for operating moneys.

- A. Do not concur. Legislative intent in establishing the program, was to make it partially dependent upon the General Fund, (Section 53-30-133, MCA). If revenues raised through the program's operations are spent before General Fund, the program would cease to exist at the end of the Fiscal Year, at which time there would be a zero balance in the program's revolving fund and all remaining General Fund would revert. Essentially, there would be no funding available to continue the program.
- B. Do not concur. Section 17-2-108, MCA requires that nongeneral fund money be expended before using the general fund appropriation, wherever possible. Spending nongeneral fund money first is not possible in the Industries Training Program.

